

GREEN BANKSHARES, INC.
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2007**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number **0-14289**

GREEN BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of
incorporation or organization)

62-1222567

(I.R.S. Employer Identification No.)

100 North Main Street, Greeneville, Tennessee

(Address of principal executive offices)

37743-4992

(Zip Code)

Registrant's telephone number, including area code: **(423) 639-5111**

GREENE COUNTY BANCSHARES, INC.

(Former name, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

YES NO

As of August 8, 2007, the number of shares outstanding of the issuer’s common stock was: 12,932,512.

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of Green Bankshares, Inc. and its wholly owned subsidiaries are as follows:

Condensed Consolidated Balance Sheets – June 30, 2007 and December 31, 2006.

Condensed Consolidated Statements of Income and Comprehensive Income - For the three and six months ended June 30, 2007 and 2006.

Condensed Consolidated Statement of Changes in Shareholders' Equity – For the six months ended June 30, 2007.

Condensed Consolidated Statements of Cash Flows - For the six months ended June 30, 2007 and 2006.

Notes to Condensed Consolidated Financial Statements.

GREEN BANKSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2007 and December 31, 2006
(Amounts in thousands, except share and per share data)

	(Unaudited) June 30, 2007	December 31, 2006*
ASSETS		
Cash and due from banks	\$ 70,807	\$ 44,657
Federal funds sold and other	1,007	25,983
Securities available for sale	242,882	37,740
Securities held to maturity (with a market value of \$1,347 and \$2,544)	1,358	2,545
FHLB, Bankers Bank and other stock, at cost	10,837	7,055
Loans held for sale	10,705	1,772
Loans, net of unearned interest	2,327,149	1,539,629
Allowance for loan losses	(32,935)	(22,302)
Premises and equipment, net	79,957	57,258
Goodwill and other intangible assets	158,158	38,540
Other assets	57,373	39,777
Total assets	\$ 2,927,298	\$ 1,772,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits	\$ 2,069,749	\$ 1,332,505
Federal funds purchased	41,862	20,000
Repurchase agreements	83,598	22,165
FHLB advances and notes payable	287,983	177,571
Subordinated debentures	88,662	13,403

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Accrued interest payable and other liabilities	44,039	22,539
Total liabilities	2,615,893	1,588,183
Shareholders' equity		
Common stock: \$2 par, 20,000,000 shares authorized, 12,927,407 and 9,810,867 shares outstanding	25,855	19,622
Additional paid-in capital	184,672	71,828
Retained earnings	103,695	93,150
Accumulated other comprehensive loss	(2,817)	(129)
Total shareholders' equity	311,405	184,471
Total liabilities and shareholders' equity	\$ 2,927,298	\$ 1,772,654

* This condensed consolidated balance sheet has been derived from the audited consolidated balance sheet, as filed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

See notes to condensed consolidated financial statements.

GREEN BANKSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Three and Six Months Ended June 30, 2007 and 2006
(Amounts in thousands, except share and per share data)

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2006	
	(Unaudited)		(Unaudited)	
Interest income				
Interest and fees on loans	\$ 39,681	\$ 27,781	\$ 71,596	\$ 53,881
Investment securities	2,090	649	2,798	1,280
Federal funds sold and other	12	59	27	95
	41,783	28,489	74,421	55,256
Interest expense				
Deposits	15,012	8,647	26,165	16,689
Borrowings	3,838	2,069	6,502	3,608
	18,850	10,716	32,667	20,297
Net interest income	22,933	17,773	41,754	34,959
Provision for loan losses	1,259	1,244	2,233	2,308
Net interest income after provision for loan losses	21,674	16,529	39,521	32,651
Noninterest income				
Service charges and fees	5,395	4,001	9,684	7,232
Other	1,088	1,027	2,198	2,551
	6,483	5,028	11,882	9,783
Noninterest expense				
Salaries and employee benefits	8,472	6,266	15,930	12,657
Occupancy and furniture and equipment expense	2,626	2,050	4,722	4,109
Other	5,611	4,363	10,099	8,619
	16,709	12,679	30,751	25,385
Income before income taxes	11,448	8,878	20,652	17,049
Provision for income taxes	4,362	3,395	7,950	6,470
Net income	\$ 7,086	\$ 5,483	\$ 12,702	\$ 10,579
Comprehensive Income	\$ 4,357	\$ 5,498	\$ 10,014	\$ 10,587

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Per share of common stock:								
Basic earnings	\$	0.63	\$	0.56	\$	1.20	\$	1.08
Diluted earnings		0.62		0.55		1.19		1.07
Dividends		0.13		0.12		0.26		0.24
Weighted average shares outstanding:								
Basic		11,321,822		9,785,936		10,572,798		9,778,288
Diluted		11,395,518		9,897,987		10,647,638		9,891,817

See notes to condensed consolidated financial statements.

GREEN BANKSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2007
(Amounts in thousands, except share and per share data)

	Accumulated				
	Common	Additional	Retained	Other	Total
	Stock	Paid-in	Earnings	Compre-	Share-
		Capital	(Unaudited)	hensive	holders'
				Loss	Equity
Balance, December 31, 2006	\$ 19,622	\$ 71,828	\$ 93,150	\$ (129)	\$ 184,471
Common stock transactions:					
Issuance of 3,102,616 shares in acquisition	6,205	112,270	-	-	118,475
Exercise of 14,574 shares under stock option plan	29	317	-	-	346
Common stock exchanged for exercised stock options, 650 shares	(1)	(21)	-	-	(22)
Stock-based compensation	-	235	-	-	235
Tax benefit from exercise of Non-qualified stock options	-	43	-	-	43
Implementation of FIN 48	-	-	800	-	800
Dividends paid (\$.26 per share)	-	-	(2,957)	-	(2,957)
Comprehensive income:					
Net income	-	-	12,702	-	12,702
Change in unrealized gains (losses), net of reclassification and taxes	-	-	-	(2,688)	(2,688)
Total comprehensive income					10,014
Balance, June 30, 2007	\$ 25,855	\$ 184,672	\$ 103,695	\$ (2,817)	\$ 311,405

See notes to condensed consolidated financial statements.

GREEN BANKSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2007 and 2006
(Amounts in thousands, except share and per share data)

	June 30, 2007	June 30, 2006
	(Unaudited)	
Cash flows from operating activities		
Net income	\$ 12,702	\$ 10,579
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,233	2,308
Depreciation and amortization	2,416	2,077
Security amortization and accretion, net	(77)	(9)
Loss on sale of securities	23	8
FHLB stock dividends	-	(165)
Net gain on sale of mortgage loans	(535)	(391)
Originations of mortgage loans held for sale	(33,779)	(29,924)
Proceeds from sales of mortgage loans	34,022	30,947
Increase in cash surrender value of life insurance	(413)	(391)
Net losses [gains?] from sales of fixed assets	78	(2)
Stock compensation expense	235	185
Net gain on other real estate and repossessed assets	(178)	(148)
Deferred tax benefit	(2,996)	(874)
Net changes:		
Other assets	(642)	(492)
Accrued interest payable and other liabilities	18,126	(2,724)
Net cash provided from operating activities	31,215	10,984
Cash flows from investing activities		
Purchase of securities available for sale	(23,682)	(5,948)
Proceeds from sale of securities available for sale	1,262	985
Proceeds from maturities of securities held for sale	13,106	9,386
Proceeds from sale of securities held to maturity	496	-
Proceeds from maturities of securities held to maturity	690	640
Purchase of life insurance	-	(41)
Purchase of FHLB stock	(819)	-
Net change in loans	(152,845)	(62,387)
Acquisition, net of cash received	(24,548)	-
Proceeds from sale of other real estate	2,622	2,571
Improvements to other real estate	-	(47)
Proceeds from sale of fixed assets	13	23
Premises and equipment expenditures	(6,008)	(4,308)
Net cash used in investing activities	(189,713)	(59,126)
Cash flows from financing activities		

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Net change in deposits	38,157	(12,273)
Net change in federal funds purchased and repurchase agreements	(11,994)	33,635
Proceeds from FHLB advances and notes payable	114,200	195,900
Proceeds from subordinated debentures	57,732	-
Repayments of FHLB advances and notes payable	(35,790)	(177,765)
Dividends paid	(2,957)	(2,348)
Proceeds from issuance of common stock	324	444
Net cash from financing activities	159,672	37,593
Net change in cash and cash equivalents	1,174	(10,549)
Cash and cash equivalents, beginning of year	70,640	74,523
Cash and cash equivalents, end of period	\$ 71,814	\$ 63,974
Supplemental disclosures – cash and noncash		
Interest paid	\$ 28,866	\$ 20,136
Income taxes paid	9,499	7,162
Loans converted to other real estate	1,785	3,121
Unrealized gain (loss) on available for sale securities, net of tax	2,688	8

See notes to condensed consolidated financial statements.

GREEN BANKSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
Unaudited
(Amounts in thousands, except share and per share data)

NOTE 1 – PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements of Green Bankshares, Inc. (the “Company”) and its wholly owned subsidiary, GreenBank (the “Bank”), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts from prior period financial statements have been reclassified to conform to the current year’s presentation.

NOTE 2 – LOANS

Loans at June 30, 2007 and December 31, 2006 were as follows:

	June 30, 2007	December 31, 2006
Commercial	\$ 344,470	\$ 258,998
Commercial real estate	1,486,967	921,190
Residential real estate	405,494	281,629
Consumer	100,441	87,111
Other	2,818	2,203
Unearned interest	(13,041)	(11,502)
Loans, net of unearned interest	\$ 2,327,149	\$ 1,539,629
Allowance for loan losses	\$ (32,935)	\$ (22,302)

(Continued)

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GREEN BANKSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
Unaudited
(Amounts in thousands, except share and per share data)

NOTE 2 – LOANS (Continued)

Transactions in the allowance for loan losses and certain information about nonaccrual loans and loans 90 days past due but still accruing interest for the six months ended June 30, 2007 and twelve months ended December 31, 2006 were as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of year	\$ 22,302	\$ 19,739
Add (deduct):		
Reserve of acquired Bank	9,022	-
Provision for loan losses	2,233	5,507
Loans charged off	(1,412)	(4,357)
Recoveries of loans charged off	790	1,413
Ending balance	\$ 32,935	\$ 22,302

	June 30, 2007	December 31, 2006
Loans past due 90 days still on accrual	\$ 443	\$ 28
Nonaccrual loans	4,440	3,479
Total	\$ 4,883	\$ 3,507

(Continued)

GREEN BANKSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
Unaudited
(Amounts in thousands, except share and per share data)

NOTE 3 – EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share (EPS) of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period. Stock options are regarded as potential common shares. Potential common shares are computed using the treasury stock method. For the three and six months ended June 30, 2007, 73,626 options are excluded from the effect of dilutive securities because they are anti-dilutive; 30,485 options are similarly excluded from the effect of dilutive securities for the three and six months ended June 30, 2006.

The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended			
	June 30,			
	2007		2006	
	Income	Shares	Income	Shares
	(Numerator)	(Denominator)	(Numerator)	(Denominator)
Basic EPS				
Income available to common shareholders	\$ 7,086	11,321,822	\$ 5,483	9,785,936
Effect of dilutive securities				
Stock options outstanding	-	73,696	-	112,051
Diluted EPS				
Income available to common shareholders plus assumed conversions	\$ 7,086	11,395,518	\$ 5,483	9,897,987
	Six Months Ended June 30,			
	2007		2006	
	Income	Shares	Income	Shares
	(Numerator)	(Denominator)	(Numerator)	(Denominator)
Basic EPS				
Income available to common shareholders	\$ 12,702	10,572,798	\$ 10,579	9,778,288
Effect of dilutive securities				
Stock options outstanding	-	74,840	-	113,529
Diluted EPS				
Income available to common shareholders plus assumed conversions	\$ 12,702	10,647,638	\$ 10,579	9,891,817

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GREEN BANKSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
Unaudited
(Amounts in thousands, except share and per share data)

NOTE 4 – SEGMENT INFORMATION

The Company's operating segments include banking, mortgage banking, consumer finance, automobile lending and title insurance. The reportable segments are determined by the products and services offered, and internal reporting. Loans, investments and deposits provide the revenues in the banking operation; loans and fees provide the revenues in consumer finance, mortgage banking and insurance commissions provide revenues for the title insurance company. Consumer finance, automobile lending and title insurance do not meet the quantitative threshold on an individual basis, and are therefore shown below in "Other Segments". Mortgage banking operations are included in "Bank". All operations are domestic.

Segment performance is evaluated using net interest income and noninterest income. Income taxes are allocated based on income before income taxes, and indirect expenses (includes management fees) are allocated based on time spent for each segment. Transactions among segments are made at fair value. Information reported internally for performance assessment follows.

Three months ended June 30, 2007	Bank	Other Segments	Holding Company	Eliminations	Totals
Net interest income (expense)	\$ 22,002	\$ 1,649	\$ (718)	\$ -	\$ 22,933
Provision for loan losses	905	354	-	-	1,259
Noninterest income	6,075	674	27	(293)	6,483
Noninterest expense	15,496	1,282	224	(293)	16,709
Income tax expense (benefit)	4,442	270	(350)	-	4,362
Segment profit	\$ 7,234	\$ 417	\$ (565)	\$ -	\$ 7,086
Segment assets at June 30, 2007	\$ 2,871,987	\$ 39,998	\$ 15,313	\$ -	\$ 2,927,298
Three months ended June 30, 2006	Bank	Other Segments	Holding Company	Eliminations	Totals
Net interest income (expense)	\$ 16,626	\$ 1,423	\$ (276)	\$ -	\$ 17,773
Provision for loan losses	999	245	-	-	1,244
Noninterest income	4,583	629	45	(229)	5,028
Noninterest expense	11,514	1,199	195	(229)	12,679
Income tax expense (benefit)	3,342	238	(185)	-	3,395
Segment profit	\$ 5,354	\$ 370	\$ (241)	\$ -	\$ 5,483
Segment assets at June 30, 2006	\$ 1,629,798	\$ 31,544	\$ 4,288	\$ -	\$ 1,665,630
Six months ended June 30, 2007	Bank	Other Segments	Holding Company	Eliminations	Totals

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Net interest income (expense)	\$ 39,534	\$ 3,206	\$ (986)	\$ -	\$ 41,754
Provision for loan losses	1,519	714	-	-	2,233
Noninterest income	11,174	1,262	38	(592)	11,882
Noninterest expense	28,362	2,512	469	(592)	30,751
Income tax expense (benefit)	8,005	487	(542)	-	7,950
Segment profit	\$ 12,822	\$ 755	\$ (875)	\$ -	\$ 12,702

Six months ended June 30, 2006	Bank	Other Segments	Holding Company	Eliminations	Totals
Net interest income (expense)	\$ 32,642	\$ 2,852	\$ (535)	\$ -	\$ 34,959
Provision for loan losses	1,841	467	-	-	2,308
Noninterest income	8,913	1,078	242	(450)	9,783
Noninterest expense	23,213	2,310	312	(450)	25,385
Income tax expense (benefit)	6,334	452	(316)	-	6,470
Segment profit	\$ 10,167	\$ 701	\$ (289)	\$ -	\$ 10,579

(Continued)

GREEN BANKSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
Unaudited
(Amounts in thousands, except share and per share data)
